

Message Text

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PAGE 01 PARIS 24849 211131Z

12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03

SS-15 USIA-15 ACDA-19 IO-13 AID-20 COME-00 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

CEA-02 STR-08 DRC-01 AGR-20 /233 W

----- 025385

P R 211026Z SEP 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 3361

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS UNN

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS : EFIN, FR

SUBJECT : BANK OF FRANCE TIGHTENS CREDIT POLICY IN EXCHANGE

CRISIS ATMOSPHERE

1. SUMMARY : BANK OF FRANCE MOVED ON SEPTEMBER 20 TO TIGHTEN
CREDIT POLICY BY CLAMPING DOWN ON BANK LENDING AND RAISING DISCOUNT
RATE TO 11 PERCENT. THESE STEPS DESIGNED TO FIGHT INFLATION IN
FRANCE AND RELIEVE PRESSURE
THAT HAS DEVELOPED RECENTLY ON FRANC TO EXCHANGE MARKETS. MASSIVE
CENTRAL BANK SUPPORT HAS BEEN REQUIRED THIS WEEK TO KEEP FRANC
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PAGE 02 PARIS 24849 211131Z

IN EUROPEAN CURRENCY "SNAKE".

WHETHER LATEST FRENCH CREDIT SQUEEZE CAN TURN TIDE IS MOOT, BUT
SITUATION DID EASE SOMEWHAT ON THURSDAY, WHEN NEWS OF FRENCH
MEASURES REACHED MARKETS. END SUMMARY.

2. ON SEPTEMBER 20, BANK OF FRANCE ANNOUNCED FOLLOWING MEASURES
TO TIGHTEN FURTHER CREDIT IN FRANCE :

(A) DISCOUNT RATE INCREASED FROM 9.5 TO 11 PERCENT (THIRD
CHANGE IN CURRENT YEAR, WHICH STARTED WITH A RATE OF 7.5 PERCENT).

(B) CEILINGS ON RATE OF GROWTH OF BANK LENDING FIXED THROUGH
END OF YEAR AT FOLLOWING LEVELS : END OCTOBER , 14 PERCENT OVER LAST
YEAR, END NOVEMBER , 13.5 PERCENT, AND END DECEMBER , 13 PERCENT.
RECALL THAT LEVEL FOR END SEPTEMBER WAS ALREADY FIXED AT 15 PERCENT
(SEE PARA 2A OF PARIS 18432), DOWN FROM 19 PERCENT FOR END MARCH
AND 17 PERCENT FOR END JUNE. IN ADDITION TO LIMITING BANK LENDING,
THIS RESTRICTION CARRIES PARTICULAR BITE BY REQUIRING BANKS TO
INCREASE MANDATORY RESERVES WITH BANK OF FRANCE AT STIFF PENALTY
RATES FOR CREDITS IN EXCESS OF FOREGOING CEILINGS.

(C) EFFECTIVE WITH NEXT REPORTING DATE (OCTOBER 21), RATE FOR
MANDATORY RESERVES ON DEMAND DEPOSIT LIABILITIES OF BANKS TO RESI-
DENT CUSTOMERS INCREASED FROM 12 TO 14 PERCENT.

3. AS SWEETENER, BANK OF FRANCE ALSO ANNOUNCED INCREASE IN
RESERVE-FREE BASE FOR CALCULATING MARGINAL RESERVE REQUIREMENT
ON LOANS OF BANKS AND OTHER FINANCIAL INSTITUTIONS. HENCEFORTH,
RATE OF 33 PERCENT WILL BE APPLIED TO INCREASE IN TOTAL CREDITS
OUTSTANDING OVER LEVEL OUTSTANDING AS OF JANUARY 4, 1973 (COMPARED
TO PREVIOUS BASE DATE OF JUNE 30, 1972). THIS MEASURE IS ESTI-
MATED TO RELEASE ABOUT 12 BILLION
FRANCS, WHEREAS UPPING OF MANDATORY ESERVES ON DEMAND DESPOITS
(PARA 1(C) ABOVE) REPRESENTS NEW PINCH OF ONLY ABOUT 4 BILLION FRANCS.

THUS, MONETARY AUTHORITIES APPEAR TO PREFER PLACING GREATER RELIANCE
ON TECHNIQUE OF CURBING OVER-ALL BANK LENDING (PARA 1(B) ABOVE)
AND AT SAME TIME TO PROVIDE BANKS SOME TEMPORARY RELIEF ON
MANDATORY RESERVE REQUIREMENTS. WITH GROWTH OF PERMISSIBLE BANK
LENDING (13 PERCENT BY END OF 1973 OVER LEVEL PREVAILING AT
BEGINNING OF YEAR), BANKS WILL DOUBTLESS FIND THEMSELVES HAVING
TO RECONSTITUTE THEIR OVER-ALL
MANDATORY RESERVES BACK UP TO EXISTING LEVELS IN NOT TOO DISTANT
FUTURE.

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PAGE 03 PARIS 24849 211131Z

4. IN PRESENTING 1974 BUDGET TO ASSEMBLY FINANCE COMMITTEE AND
PRESS ON SEPTEMBER 19 (SEPTEL), ECONOMICS AND FINANCE MINISTER
GISCARD D'ESTAING FORESHADOWED ABOVE STEPS BY INDICATING IN
GENERAL TERMS THAT CREDIT POLICY WOULD BE TIGHTENED. HE SAID
TARGET WAS TO HOLD GROWTH OF MONEY SUPPLY TO 12 PERCENT IN 1973.
FIRST OBJECTIVE OF THESE MEASURES IS, OF COURSE, EFFORT TO COOL
CURRENT OVERHEATING OF FRENCH ECONOMY AND TO MODERATE PRICE

INFLATION THAT IS CURRENTLY RUNNING AT ANNUAL RATE OF MORE THAN 9 PERCENT.

5. CREDIT MEASURES ARE LIKEWISE DIRECTED TOWARDS RELIEVING HEAVY PRESSURE THAT HAS DEVELOPED ON FRENCH FRANC WITHIN EUROPEAN CURRENCY "SNAKE." WITH TURNOIL IN EUROPEAN EXCHANGE MARKETS FOLLOWING LAST WEEK'S REVALUATION OF DUTCH GUILDER, AND WITH RESTIVE FRENCH LABOR SITUATION, OPERATORS PICKED ON FRANC AS WEAKEST SISTER AMONG JOINT EUROPEAN FLOAT CURRENCIES. THUS, FRANC HAS BEEN ON FLOOR AGAINST DEUTSCHEMARK, BELGIAN FRANC AND DANISH KRONER FOR MOST OF THIS WEEK, AND MASSIVE SUPPORT BY CENTRAL BANKS IN QUESTION HAS BEEN REQUIRED TO KEEP COMMERCIAL FRANC FROM FALLING TO MORE THAN MAXIMUM PERMISSIBLE DISCOUNT OF 2.25 PERCENT BELOW STRONG JOINT FLOAT CURRENCIES. MARKET GUESSES PUT TOTAL OFFICIAL INTERVENTION THROUGH THURSDAY AT BETWEEN \$1 AND \$1.4 BILLION. IN PARALLEL DEVELOPMENT, SPREAD BETWEEN COMMERCIAL FRANC AND FINANCIAL FRANC (WHICH GETS NO OFFICIAL SUPPORT) HAS WIDENED, WITH LATTER AT ABOUT 5 PERCENT DISCOUNT YESTERDAY. WHETHER LATEST FRENCH CREDIT SQUEEZE CAN TURN THE TIDE IS MOOT, BUT REPORTS FROM FRANKFURT SAY BUNDES BANK WAS ABLE TO WITHDRAW FROM MARKET YESTERDAY WHEN NEWS OF FRENCH MEASURES REACHED FRANKFURT.

6. AS IS NOW TRADITIONAL, UPPING OF DISCOUNT RATE IS DESIGNED TO PUT IT ABOVE INTERBANK QUOTATIONS FOR CALL MONEY, WHICH SOARED TO 10-3/4 PERCENT ON WEDNESDAY FROM TUESDAY'S CLOSE OF 9.78 PERCENT. WHILE DISCOUNT RATE NOW HAS VIRTUALLY NO DIRECT OR MECHANICAL BEARING ON COST OF MONEY IN FRANCE (SINCE BANK OF FRANCE NO LONGER ACCOMMODATES BANKING SYSTEM THROUGH DISCOUNT WINDOW), FRENCH FINANCIAL AUTHORITIES ARE SAID TO HOPE HEFTY DISCOUNT RATE INCREASE WILL HAVE "PSYCHOLOGICAL" EFFECT IN STIFFENING FRENCH INTEREST RATES COMPARED TO LEVELS PREVAILING LAST YEAR, PARTICULARLY IN GERMANY. IRWIN
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PAGE 04 PARIS 24849 211131Z

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